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BOARD AGENDA 6/12/78

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COUNTY ADMINISTRATOR

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COUNTY OF SAN JOAQUIN

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June 12, 1978

Board of Supervisors
Courthouse
Stockton, California

Gentlemen:

PROPOSED PROPOSITION 13 BUDGET REDUCTIONS

During the last few months, all County Departments together with the Auditor-Controller and the County Administrator have been preparing a proposed budget for the fiscal year commencing July 1, 1978. This budget is presently being printed and will be available to your Board and the public prior to the end of June.

Simultaneously, the County Department Heads have been working with the County Administrator's Office considering the probable impact of Proposition 13 and have been preparing two alternative Proposition 13 budgets.

It is the purpose of this report to summarize the actions which have taken place and to present to the Board proposals which will serve as a basis for implementing program reductions and lay-off decisions resulting from the passage of Proposition 13.

Review of County Contingency Planning and Actions

On February 28, your Board received a staff analysis on the Jarvis-Gann Initiative. Attachment "A" contains the conclusions which were attached to that report. By way of review, it should be noted that nothing has occurred to change the analysis of the Proposition as it was reported to your Board at that time, and most of the uncertainties identified with the detailed impact of the passage of Proposition 13 exist today. These uncertainties will continue to exist until the Legislature:

1. Enacts new legislation providing for the levying and distribution of the 1% property tax;

2. Enacts legislation relating to the allocation of State surplus funds to local governments, and

3. Until the questions of interpretation of Proposition 13 are finalized by the Courts.

Significantly, any proposal to conform with requirements, which in themselves are uncertain, must in turn carry some degree of flexibility based upon the most logical projected outcome of interpretations. Therefore, although we recognized that there would probably be substantial reductions in County revenues which would be available to fund County services for fiscal year 1978-79 and thereafter, we also recognized that the State surplus for the year ending 1978-79 would probably be between $5 billion and $6 billion. We stated that it was inconceivable that the State would not allocate a large portion of these tax surplus dollars to local government to replace property tax cutbacks.

Thus, the County took early action in planning for the impact of the passage of Proposition 13. Following the February analysis of the Proposition, the Board of Supervisors adopted policies which would direct a shift in program costs from the property tax base to user fees. This action represented primarily an acceleration in the County policy adopted a few years back to charge program users for service rather than the general tax-payers.

Specifically, and where applicable, user fees will be applied to all Board of Supervisors' governed Special Districts. Thus, charges for water service, sewer service, drainage and street lighting will be levied against each property owner within the service district and the district property tax, except for outstanding bond issues, will be eliminated for the support of these services.

This concept has been extended to the Enterprise Funds where refuse disposal fees have been and will be increased to both the direct and indirect users of the sites, thereby replacing general fund support.

User fees will pay an increasing percentage in the support of our Airport and Hospital Enterprise Funds.

Fees charged by departments for services will be increased in such areas as Building Inspection, Planning fees, Surveyor fees

and Park usage fees. These actions are necessary to provide for the continuation of needed services and will, in addition, result in a fair means of distributing the cost for program support to those directly benefiting from the program.

Although the extent of County reduction in County service and resulting job lay-offs will not be known until such time as the Legislature passes implementing legislation for Proposition 13, the fact that job reductions will be required is almost a certainty.

Accordingly, the Board of Supervisors initiated a job freeze prior to the passage of Proposition 13 together with a freeze on major deferrable expenditures with two goals in mind. The first goal was to ease the transition from our present level of budgeting to the new level which would result from Proposition 13. This was accomplished by decreasing expenditures during the current fiscal year and thereby building up our cash reserve for the fiscal year to commence on July 1. Secondly, this action directly reduced the number of employees to be laid off by building a growing list of positions which would be already vacant by June 30th.

On May 16th, the Board of Supervisors approved the distribution to each County employee of a Notice of Intended Job Termination. This notice was distributed on or about May 26th in conformance with the requirements within our Memorandum of Understanding which requires that all employees be notified 30-days in advance of any impending lay-off.

It should be clear to all that with the uncertainties which existed in an analysis of Proposition 13 at that time, and which to a great extent exist today, the preparation of a specific list of those to be terminated was not possible. It should also be noted by those unfamiliar with our Civil Service Rules that when an employee is subject to a lay-off, the employee has "bumping" rights into a lower job classification of his job series within his department which may affect, in turn, several other employees before the final lay-off is accomplished. Thus, there was no practical way to comply with the 30-day notice other than to advise all of the employees that lay-offs might occur.

During this period, the Board of Supervisors, our office and other Department Heads have been extremely active in working with the State Associations, our Legislators and the Administration in seeking solutions to the impact of Proposition 13 which would be most favorable to our County citizens.

On May 16th, when we requested the distribution of the lay-off notices, we reminded the Board and the public of the high demand made upon San Joaquin County property taxpayers to support three Federal and State Health and Welfare Programs. These were:

Medi-Cal Share	$ 8,715,630	Funds sent to the State
SSI/SSP Share	3,693,684	Funds sent to the State
AFDC Payments	7,250,113	Funds distributed locally
Total	$19,659,427	

We advised the Board that if this County's ongoing goal, commenced several years before Jarvis-Gann, of having the State pay for these programs was not achievable or that an equivalent amount of State funds was not made available to our County Government, then the effects upon County Government would be disastrous and that by rule of thumb, we would probably have to eliminate 1,250 employee positions.

A more detailed reanalysis of the impact of Proposition 13 on San Joaquin County Government <u>without equivalent State reimbursement for these three costly programs</u> indicates that our early estimates were too low.

Other contingency planning measures initiated by the County included weekly meetings with Department Heads for the purpose of improving communications on the impact of Proposition 13 and the planning activities which were related to it. These activities included the preparation of seniority lists in all County Departments (a task which heretofore has probably never been accomplished at one time), a review of all job series within the County and clarification of lay-off rules which resulted in the signing of a Memorandum of Understanding with the Employees Association.

In order to identify the reductions which might be made in the various County Departments, it was necessary to develop specific staffing strengths and program expenditures for each department. This was accomplished in two ways:

> First, each department was asked to prepare its own zero based budget indicating the maximum reductions which that department could bear before reaching the point where it should be discontinued all together. The departments complied with the request. However, as might be expected, the willingness to

reduce departmental expenditures and the interpretation of the zero base cost varied greatly among the many Department Heads with the result that the total of the proposed reductions were far short of those estimated to be required.

Therefore, in the second case, the Administrative Office allocated goals to each department and requested that the departments identify where the cuts could be made in order to live within these goals together with the number of positions which would have to be eliminated in each case. This procedure involved the establishment of two goals in each department.

The first goal, Plan 1-A, was based upon a total absence of State support and assumed a prorata distribution of the 1% tax levy.

The second goal, Plan 1-B, was based upon an estimated State surplus buy-out of the three major Health and Welfare Programs and also assumed a prorata distribution of the 1% property tax levy.

In each case, the Department Heads were invited to meet with the Administrative Officer at the time the goals were assigned and then were asked to meet with the Administrative Officer a second time to discuss the departmental impact statements and the calculations relating to the number of positions, departmental income, and departmental expenditures.

This brings us up to date on the Contingency Plan of the County and we will be discussing the County's Proposed Budget together with the two Alternative Proposition 13 Budgets following completion of this report.

Review of State Contingency Planning and Actions

Following our February 28th analysis of the Jarvis-Gann Initiative which we presented to the Board, we suggested that both the State and the County should develop Contingency Plans which would facilitate the transition of County Government into a Proposition 13 budget year effective July 1, 1978. We have outlined above the actions which the County has taken. Included in the County's actions were the recommendations that the State act quickly on legislation (such as S.B. 1569 - Rodda) which would tell the public what the State's intention would be in the matter of distributing the State surplus and/or reimbursements to other agencies following passage of Proposition 13.

As late as April 27th when the County Supervisors Association of California held a special property tax seminar in Sacramento for the purpose of discussing Propositions 8 and 13, Governor Brown still failed to indicate that any Contingency Plan was being developed by his staff to assist in maintaining vital local services.

On May 11, 1978, the Administrative Officers from the 15 largest counties met with the Governor and on that date we were advised that the Governor had asked Mr. Roy Bell, Director of Finance, to prepare a Contingency Plan. Unfortunately, this was less than 30-days in advance of the June 6 Primary Election and less than six weeks from the deadline of June 20th which the counties agreed should be the last date for the State to act if local governments were to avoid substantial lay-offs on June 30th.

Since the June 6 Primary date, several encouraging actions have taken place at the State level.

Assembly Speaker Leo McCarthy has indicated his support for the one year buy-out from State surplus funds of the counties' cost of Medi-Cal, SSI/SSP, and AFDC together with a reimbursement to the counties for the cost of operating the Courts System and the Offices of District Attorney and Public Defender.

In addition, the Office of the Secretary of Health and Welfare has developed a proposal for assisting counties through the buy-out of the Medi-Cal, SSI/SSP, and AFDC local program costs augmented by assistance in the fields of Social Services (Title XX buy-out), Mental Health, Alcoholism and Drug Abuse, Crippled Children, and Probation Subsidies. This participation would also total an estimated $1.3 billion and would be allocated to County Governments from the State surplus.

After considering these and other proposals at a special session held in Sacramento on Saturday, June 10th, the County Supervisors Association of California voted to support an allocation of $1.6 billion to County Governments which represents a consolidation of the proposals submitted by Speaker McCarthy and the proposal submitted by the Health and Welfare Agency.

As stated earlier, we have repeatedly emphasized the necessity for the Legislature and the Governor to quickly agree on the plans for implementing Proposition 13 and urged that their final decision not be delayed beyond June 20th.

The Legislature has now assigned this matter to a Joint Conference Committee consisting of three Senators and three Assemblymen. The membership is as follows:

Senate	Assembly
Mills	McCarthy
Rodda	Boatwright
Campbell	Priolo

This Committee will confer today and will consider presentations regarding the distribution of the State surplus to local governments as well as the distribution of the 1% local property tax permitted under Proposition 13. It is hoped that the committee will complete its deliberations this week and that the emergency legislation will be approved by the Legislature and signed by the Governor no later than June 20th. This legislation is necessarily an interim measure in that the final affects on governmental structures and services resulting from passage of Proposition 13 will undoubtedly be the subject of much legislation in the years to come.

Review of Alternative Budgets 1-A and 1-B

As stated earlier, the Proposed Budget for fiscal year 1978-79 will be presented to your Board before the end of June. This budget was largely prepared in advance of the passage of Proposition 13 and was not intended to meet the restrictions imposed by that Proposition.

Therefore, it is the intention of the Administrative Office to present to your Board the Proposed Budget along with summarized reductions on a department-by-department basis which will enable the Board to adopt the Proposed Budget prior to June 30th and establish adequate controls upon County expenditures until the adoption of your Final Budget which is scheduled for the period of August 21st through August 29th. Before discussing the details of the Alternative Budgets, I would like to present the following brief analysis of the Proposed Budget as it was developed, along with six budget areas which are now recommended for funding elimination effective July 1, 1978:

1978-79 PROPOSED BUDGET ANALYSIS

I.	Total 1978-79 Proposed Budget Requirements		$156,627,796
	Less Available Financing* (Includes General Fund and Public Assistance fund balances ($1,214,000 over last year) and $1,000,000 interest income estimate)		118,044,109
			$ 38,583,687
II.	Budgets Recommended for Elimination		
	154 Advertising	$ 86,010	
	621 Safety Council	15,000	
	623 Youth Employment	50,000	
	702 Recreation	186,375	
	708 Cultural Services	37,500	
	714 Ex-Servicemen	11,220	
	Total	$386,105	386,105
III.	Local Property Tax Requirement		$ 38,197,582
IV.	Estimated Proposition 13 Property Tax Income (38% of $41,860,000)		15,906,800
	Deficit		$ 22,290,782
V.	Plus Loss of HOE and BI Income (62% of $6,901,241)		4,278,769
	Deficit		$ 26,569,551

*This amount in the Proposed Budget included a pre "Prop. 13" calculation of the full State payments to the County of $6.9 million. Therefore, it is necessary to reduce this figure by 62% in Item V.

The proposed adjustments under Alternative Budgets 1-A and 1-B relate to the Proposed Budget for fiscal year 1978-79 which will be presented to your Board this month. It should be noted that the Proposed Budget represents in itself a restrictive approach to funding departmental operations for next year. As an example, the budget provides for a net reduction of 66 vacant positions and the total of the proposed budget of $156,627,796 represents an increase of slightly less than $200,000 over the budget for the current year. Thus, the 1-A and 1-B modifications, which may be applied to the Proposed Budget, will affect departmental spending estimates which have been projected in a generally conservative manner.

As indicated earlier, the 1-A Alternate was based upon the possibility of the State failing to pick up the cost of the three major Health and Welfare Programs. The 1-A Plan would call for the immediate elimination of approximately 196 CETA positions and approximately 773 regular and contract positions for a total of 969 positions. It would reduce the operational budgets by approximately $20 million per year and would have a drastic impact on basic services such as Criminal Justice, Public Assistance, Health Care, and general governmental services. Furthermore, in the absence of a State buy-out on the three Health and Welfare Programs, we would anticipate additional lay-offs within the following 12-month period, as a result of the utilization of one time reserves, of an additional 600 employees.

Fortunately, it appears that the Legislature and the Administration now recognize the impossibility of carrying on County Government in the absence of the State assumption of the cost of Medi-Cal, SSI/SSP, and AFDC Programs. For this reason it is recommended that the Board set aside Proposal 1-A and review the recommendations relative to Proposal 1-B. This Proposal would assume the prorata distribution of the 1% property tax and a $20 million buy-out of the three major Health and Welfare Programs and identifies budget reductions of approximately $10 million in the operating departments. It also identifies approximately 300 positions which would be eliminated and approximately 150 CETA positions which would be terminated in order to reach the $10 million figure.

It should be noted that although there are no funds proposed by this office for general salary increases beginning July 1, 1978 for County employees, our Proposed Budget does include funds for substantially increasing the County's contribution to the Employees Retirement System. These contribution increases represent approximately 6.2% of total payroll for Safety Members and approximately 2.1% of total payroll for General Members.

Should we receive the approximately $20 million buy-out, our operating deficit would be approximately $6.5 million as indicated on Page 8. It would be possible to fund this deficit on a one time basis by abandoning plans to construct the new Courthouse Annex building and by utilizing the County's reserves over the next 12 months.

This action is not recommended because it would lead to the requirement for the County to borrow funds in the following fiscal year, in order to operate, with the resulting loss of interest income to the County and an added cost for interest expense charged to the County.

Should the Legislature by June 20th determine the basis for allocating the 1% property tax to local agencies and the basis for allocating the surplus to local agencies, this office will submit more precise alternative budget recommendations to your Board together with recommendations for the number of lay-offs to be effective on June 30th.

In the absence of State action, it is recommended that we adopt the budget based upon the assumptions that the 1% allocation will be prorated in accordance with the 1977-78 distribution and with the assumption that the State will pick up the cost of the County's Medi-Cal Share, SSI/SSP Share, and AFDC Programs. These assumptions would indicate a reduction of approximately $6.5 million from the Proposed Budget figures which could be accomplished following a 35% reduction in the cost savings projected in Plan 1-B. Therefore,

IT IS RECOMMENDED THAT THE BOARD:

1. Review in general the proposals contained in Plan 1-B on this date.

2. Review on Wednesday, June 14th the impact of these proposals on the major departments.

3. Review on Thursday, June 15th the impact of these proposals on outside agencies.

4. Instruct this office to prepare recommended Proposed Budget modifications and lay-off lists not later than June 21st for consideration by your Board.

We regret that we cannot be more specific in our recommendations at this time, however, as already emphasized, the County actions will depend entirely upon the State's prompt passage of legislation relating to the impact of Proposition 13 on local government.

Sincerely,

CED

C. E. DIXON
County Administrator

CED:st / Attachment
cc: All Department Heads

#211/78

ATTACHMENT "A"

CONCLUSION

Proposition 13 is so poorly drafted that it will result in lengthy litigation which, in turn, will result in increased costs to the State's taxpayers and expensive interruptions of vital public services.

If held to be constitutional, Proposition 13 will reduce Statewide real property taxes approximately $2.5 billion per year for homeowners and approximately $4.5 billion per year for businesses, landlords and other properties. This will result from a reduction in the Statewide average real property tax rate from approximately $10.73 per hundred dollars of assessed valuation to approximately $4.0 per hundred dollars of assessed valuation.

In order to fund existing local services, substantial increases will be required in sales tax, personal income tax and the banks and corporations tax and the resulting tax shift will fall more heavily on individual taxpayers, whether they be homeowners or renters, than upon business taxpayers.

The reevaluation provisions of the proposal, relating to real property, will also benefit corporations more than individuals.

Local bond issues approved by a vote of the electors and supported by property tax levies, will no longer be possible for any purpose. This limitation, of course, includes school construction, neighborhood and area-wide improvements.

Even though replacement funding later becomes available to continue essential local services, some severe interruptions in service will probably occur with resulting added costs to the taxpayers.

As the State becomes more involved in funding local services, the costs of providing these services will increase and the options open to local electors and local government will decrease.

Nothing is contained within the proposed amendment which requires an overall reduction in either tax funds collected or tax funds expended. Furthermore, because of the shift of responsibility from local government to the State government, the total costs to taxpayers for providing local services will be increased.

Historically, even the best thought out legislation requires emergency follow-up legislation to clarify and correct the original language. In the case of a constitutional amendment, corrections can only be made by a vote of the people. Furthermore, a proposition to be voted on must qualify for the ballot 131 days before either a Primary (June) or General (November) Election. Since June 29, 1978 is the last day to qualify for the November 7, 1978 election, corrections could well be delayed until the next election which will be held in June of 1980. This two year waiting period could prove very costly both in terms of tax dollars and interrupted services.